

**REPORT OF THE AUDIT OF THE
MONROE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MONROE COUNTY SHERIFF

For The Year Ended
December 31, 2002

The Auditor of Public Accounts has completed the Monroe County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$365 from the prior calendar year, resulting in excess fees of \$858 as of December 31, 2002. Revenues increased by \$6,992 from the prior year and disbursements increased by \$7,357.

Report Comments:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$32,164 To Protect Deposits
- The Financial Statement Should Be Published Within 60 Days After The Close Of Year
- Lacks Adequate Segregation Of Duties

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Wilbur Graves, Monroe County Judge/Executive

Honorable Jerry Gee, Monroe County Sheriff

Members of the Monroe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Monroe County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Wilbur Graves, County Judge/Executive
Honorable Jerry Gee, Monroe County Sheriff
Members of the Monroe County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 8, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$32,164 To Protect Deposits
- The Financial Statement Should Be Published Within 60 Days After The Close Of Year
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 8, 2003

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

Federal Grants		\$	47,332
State Fees For Services:			
Finance and Administration Cabinet	\$	12,847	
Cabinet For Human Resources		<u>166</u>	13,013
Circuit Court Clerk:			
Sheriff Security Service	\$	3,672	
Fines and Fees Collected		<u>1,630</u>	5,302
Fiscal Court			37,670
County Clerk - Delinquent Taxes			478
Commission On Taxes Collected			85,962
Fees Collected For Services:			
Auto Inspections	\$	8,150	
Accident and Police Reports		437	
Serving Papers		13,995	
Carrying Concealed Deadly Weapon Permits		1,755	
Sheriff's Add On Fees		7,773	
Jail Transportation		<u>4,053</u>	36,163
Other:			
Miscellaneous			1,581
Interest Earned			1,085
Borrowed Money:			
State Advancement	\$	45,000	
Bank Note		<u>5,000</u>	<u>50,000</u>
Total Receipts			\$ 278,586

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY
 JERRY GEE, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Payments to State:

Carrying Concealed Deadly Weapon Permits	\$ 1,415
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Operating Disbursements:

Personnel Services-

Deputies' Salaries	69,695
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COPS Salaries	43,968
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Employee Benefits-

Employer's Share Social Security	3,364
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Contracted Services-

Vehicle Maintenance and Repairs	14,629
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Materials and Supplies-

Office Materials and Supplies	1,138
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Uniforms	358
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Auto Expense-

Gasoline	17,950
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Other Charges-

Conventions and Travel	1,838
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Postage	136
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Court Costs to Fiscal Court	4,310
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Security on Metal Detector	2,943
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Miscellaneous	2,114
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Debt Service:

State Advancement	45,000
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Notes	5,000
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Interest	129
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Total Disbursements	\$ 213,987
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Net Receipts	\$ 64,599
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Less: Statutory Maximum	\$ 62,259
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Training Allowance	1,482	63,741
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Excess Fees Due County for 2002	\$ 858
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Payment to County Treasurer - July 8, 2003	858
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Balance Due at Completion of Audit	\$ 0
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The accompanying notes are an integral part of this financial statement.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 9, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$32,164 of public funds uninsured and unsecured.

MONROE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2002
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 9, 2002.

	<u>Bank Balance</u>
FDIC insurance	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,350,000
Uncollateralized and uninsured	<u>32,164</u>
Total	<u>\$ 1,482,164</u>

Note 3. Drug Fund

The Monroe County Sheriff's office established a drug fund in February 1993 with funds received as the result of a drug investigation. These funds were to be used for drug enforcement and education only and are not available for excess fee purposes. As of December 31, 2001, the drug fund had a balance of \$15. During 2002, there was no financial activity. As of December 31, 2002, the drug fund had a balance of \$15.

Note 4. Grant Fund

The Monroe County Sheriff's office was awarded with a COPS in Schools Grant from the Office of Community Oriented Policing Services, U.S. Department of Justice. These funds were to hire two new, additional full-time officers and are not available for excess fee purposes. As of December 31, 2001, the grant fund had a balance of \$2,649. During calendar year 2002, grant receipts totaled \$48,000 and interest earned totaled \$67. Disbursements totaled \$47,382. As of December 31, 2002, the grant account had an unexpended balance of \$3,334.

Note 5. Related Party Transaction

Ronnie Hollinsworth is a magistrate and half owner of Travco Oil. The Sheriff's office purchased \$17,881 of gasoline from Travco Oil during 2002. Sheriff's personnel use Travco Oil to purchase gasoline because it is the only gas station in town that is open twenty-four hours. These transactions with Travco Oil do not violate the Monroe County Ethics Code.

COMMENTS AND RECOMMENDATIONS

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

- 1) The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral Of \$32,164 To Protect Deposits

On December 9, 2002, \$32,164 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Sheriff's Response:

None.

- 2) The Financial Statement Should Be Published Within 60 Days After The Close Of Year

According to KRS 424.220, financial statements are required to be published within 60 days after the close of the calendar year. We recommend that the sheriff start publishing the official annual financial statement within 60 days after the close of the year.

County Sheriff's Response:

None.

INTERNAL CONTROL:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.

MONROE COUNTY
JERRY GEE, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

INTERNAL CONTROL: (Continued)

Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

County Sheriff's Response:

None.

PRIOR YEAR:

In the prior year audit report, the Auditor of Public Accounts made the following comment and recommendation:

- Financial Statements Are To Be Published Within 60 Days After The Close Of Year

This finding has not been corrected.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Monroe County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated July 8, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Monroe County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral Of \$32,164 To Protect Deposits
- The Financial Statement Should Be Published Within 60 Days After The Close Of Year



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Monroe County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations section.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 8, 2003

